



**COMFORT  
SYSTEMS USA**

Quality People. Building Solutions.

**Q4 2019 Earnings Call**

February 27, 2020

NYSE: FIX

## SAFE HARBOR

Certain statements and information in this presentation may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as amended. The words “believe,” “expect,” “anticipate,” “plan,” “intend,” “foresee,” “should,” “would,” “could,” or other similar expressions are intended to identify forward-looking statements, which are generally not historic in nature. These forward-looking statements are based on the current expectations and beliefs of Comfort Systems USA, Inc. and its subsidiaries (collectively, the “Company”) concerning future developments and their effect on the Company. While the Company’s management believes that these forward-looking statements are reasonable as and when made, there can be no assurance that future developments affecting the Company will be those that it anticipates. All comments concerning the Company’s expectations for future revenue and operating results are based on the Company’s forecasts for its existing operations and do not include the potential impact of any future acquisitions. The Company’s forward-looking statements involve significant risks and uncertainties (some of which are beyond the Company’s control) and assumptions that could cause actual future results to differ materially from the Company’s historical experience and its present expectations or projections.

Important factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to: the use of incorrect estimates for bidding a fixed-price contract; undertaking contractual commitments that exceed the Company’s labor resources; failing to perform contractual obligations efficiently enough to maintain profitability; national or regional weakness in construction activity and economic conditions; financial difficulties affecting projects, vendors, customers, or subcontractors; the Company’s backlog failing to translate into actual revenue or profits; failure of third party subcontractors and suppliers to complete work as anticipated; difficulty in obtaining or increased costs associated with bonding and insurance; impairment to goodwill; errors in the Company’s percentage-of-completion method of accounting; the result of competition in the Company’s markets; the Company’s decentralized management structure; material failure to comply with varying state and local laws, regulations or requirements; debarment from bidding on or performing government contracts; shortages of labor and specialty building materials; retention of key management; seasonal fluctuations in the demand for HVAC systems; the imposition of past and future liability from environmental, safety, and health regulations including the inherent risk associated with self-insurance; adverse litigation results; an increase in our effective tax rate; a cyber security breach; and other risks detailed in our reports filed with the Securities and Exchange Commission (the “SEC”).

For additional information regarding known material factors that could cause the Company’s results to differ from its projected results, please see its filings with the SEC, including its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K. Readers are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to publicly update or revise any forward-looking statements after the date they are made, whether as a result of new information, future events, or otherwise.

## NON-GAAP MEASURES

Certain measures in this presentation are not measures calculated in accordance with generally accepted accounting principles (“GAAP”). They should not be considered a replacement for GAAP results. Non-GAAP financial measures appearing in these slides are identified in the footnote. See the Appendices for a reconciliation of these non-GAAP measures to the most comparable GAAP financial measures.



## Q4 2019 Financial Results Highlights

Q4 Revenue increased \$131.2 million to \$719.6 million compared to Q4 2018

Gross Profit was 18.4% vs. 20.1% in Q4 2018

SG&A increased \$6.1 million to \$86.6 million or 12.0% of revenue vs. \$80.5 million or 13.7% of revenue in Q4 2018

EPS was \$0.92 per diluted share

Q4 2019 Cash Flow from Operations was \$42.3 million

Q4 2019 Backlog of \$1.60 billion

# Key Financial Data – Income Statement

(\$ Thousands, Except Per Share Data) (Unaudited)

	For the Three Months Ended				Variance	
	December 31,				\$	%
	2019		2018			
Revenue	\$ 719,584	100.0%	\$ 588,359	100.0%	\$ 131,225	22.3%
Cost of Services	587,024	81.6%	470,184	79.9%	116,840	24.8%
Gross Profit	132,560	18.4%	118,175	20.1%	14,385	12.2%
Selling, General and Administrative Expenses	86,588	12.0%	80,458	13.7%	6,130	7.6%
Gain on Sale of Assets	(582)	-0.1%	(315)	-0.1%	(267)	84.8%
Operating Income	<u>\$ 46,554</u>	6.5%	<u>\$ 38,032</u>	6.5%	<u>\$ 8,522</u>	<u>22.4%</u>
Net Income	<u>\$ 34,052</u>	4.7%	<u>\$ 25,156</u>	4.3%	<u>\$ 8,896</u>	<u>35.4%</u>
Diluted EPS	<u>\$ 0.92</u>		<u>\$ 0.67</u>		<u>\$ 0.25</u>	<u>37.3%</u>
Adjusted EBITDA <sup>(1)</sup>	<u>\$ 59,101</u>	8.2%	<u>\$ 49,674</u>	8.4%	<u>\$ 9,427</u>	<u>19.0%</u>

<sup>(1)</sup> See Slide 11 for GAAP Reconciliation to Adjusted EBITDA

## 2019 Financial Results Highlights

2019 Revenue increased \$432.4 million to \$2.62 billion compared to 2018

Gross Profit was 19.2% vs. 20.4% for 2018

SG&A increased \$43.0 million to \$340.0 million or 13.0% of revenue vs. \$297.0 million or 13.6% of revenue for 2018

EPS was \$3.08 per diluted share

2019 Cash Flow from Operations was \$142.0 million

# Key Financial Data – Income Statement

(\$ Thousands, Except Per Share Data)

	For the Year Ended December 31,				Variance	
	2019		2018		\$	%
Revenue	\$ 2,615,277	100.0%	\$ 2,182,879	100.0%	\$ 432,398	19.8%
Cost of Services	2,113,334	80.8%	1,736,600	79.6%	376,734	21.7%
Gross Profit	501,943	19.2%	446,279	20.4%	55,664	12.5%
Selling, General and Administrative Expenses	340,005	13.0%	296,986	13.6%	43,019	14.5%
Gain on Sale of Assets	(1,701)	-0.1%	(945)	0.0%	(756)	80.0%
Operating Income	<u>\$ 163,639</u>	6.3%	<u>\$ 150,238</u>	6.9%	<u>\$ 13,401</u>	<u>8.9%</u>
Net Income	<u>\$ 114,324</u>	4.4%	<u>\$ 112,903</u>	5.2%	<u>\$ 1,421</u>	<u>1.3%</u>
Diluted EPS	<u>\$ 3.08</u>		<u>\$ 3.00</u>		<u>\$ 0.08</u>	<u>2.7%</u>
Adjusted EBITDA <sup>(1)</sup>	<u>\$ 213,510</u>	8.2%	<u>\$ 191,982</u>	8.8%	<u>\$ 21,528</u>	<u>11.2%</u>

<sup>(1)</sup> See Slide 11 for GAAP Reconciliation to Adjusted EBITDA

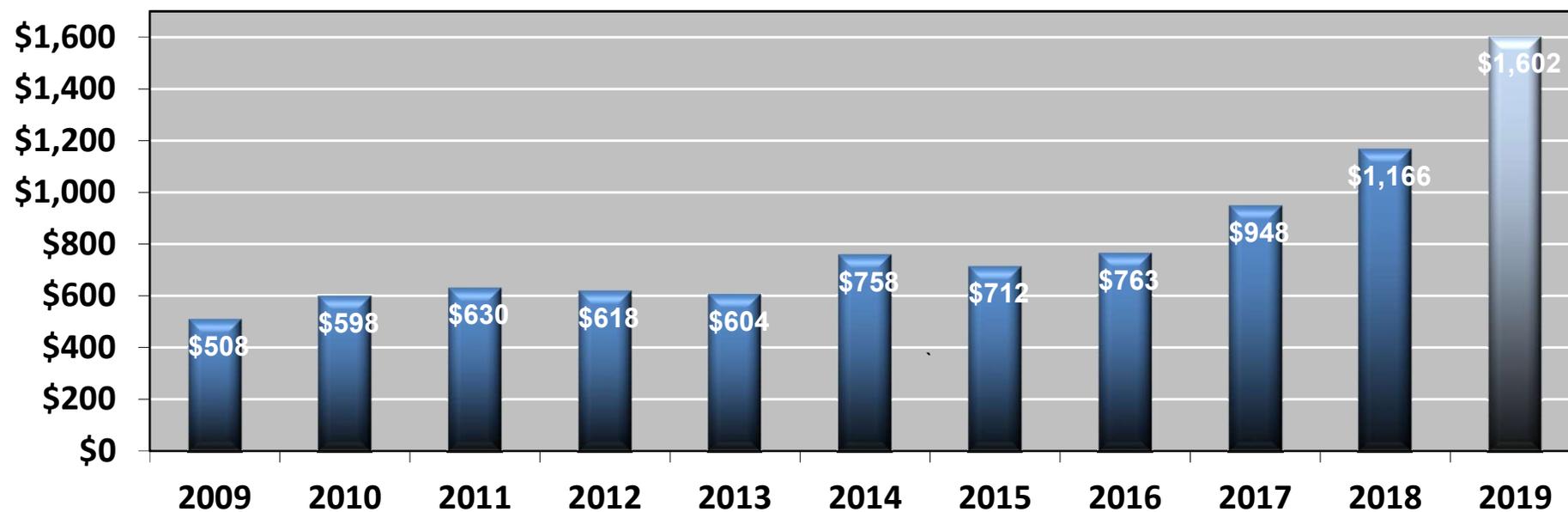
# Key Financial Data – Balance Sheet

(\$ Millions)

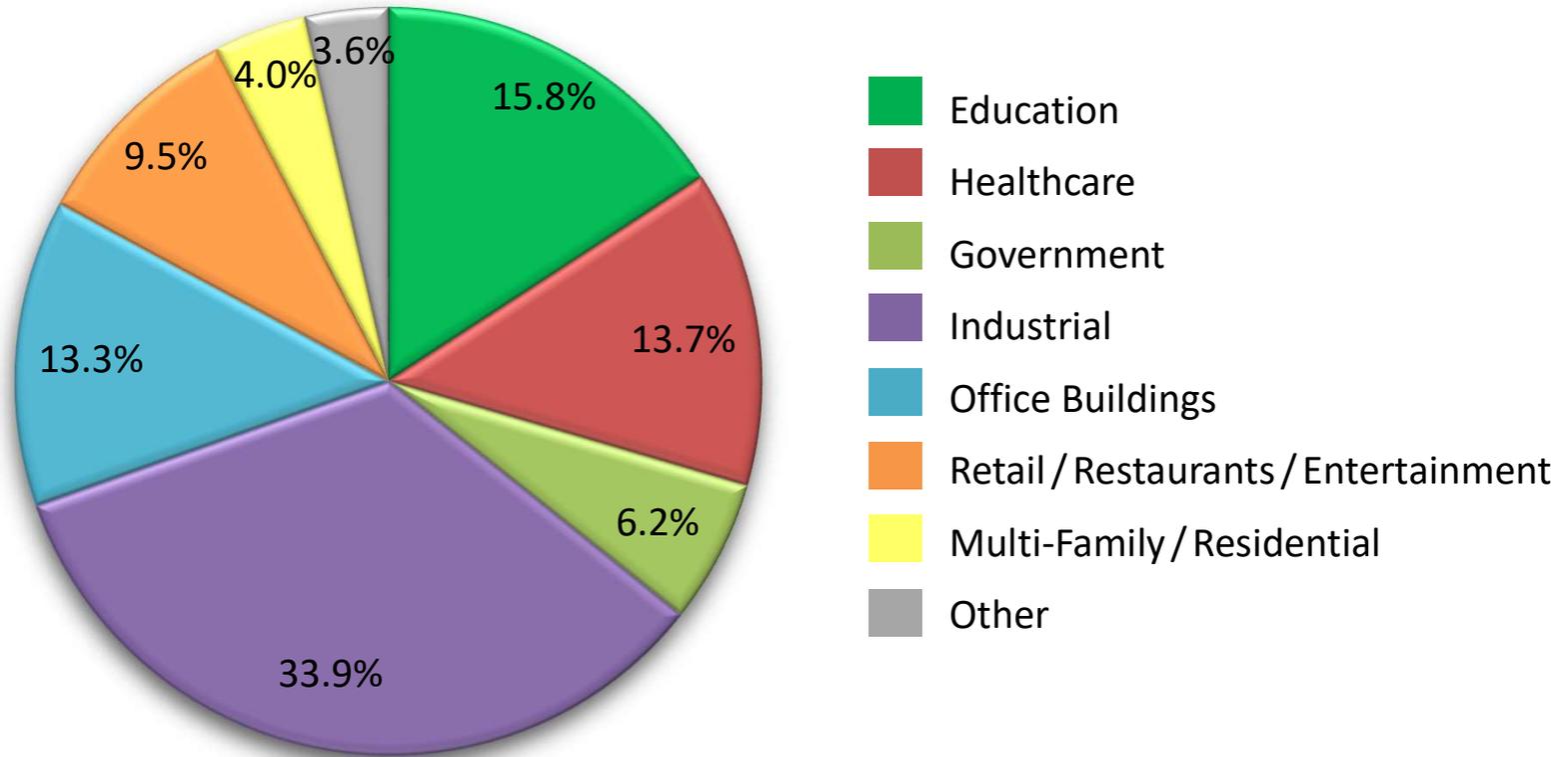
	<u>12/31/2019</u>	<u>12/31/2018</u>
Cash	\$ 50.8	\$ 45.6
Working Capital	\$ 182.2	\$ 142.6
Goodwill	\$ 332.4	\$ 235.2
Intangible Assets, Net	\$ 160.0	\$ 95.3
Total Debt	\$ 226.1	\$ 76.9
Equity	\$ 585.3	\$ 498.0

# Backlog

(\$ Millions) (Unaudited)

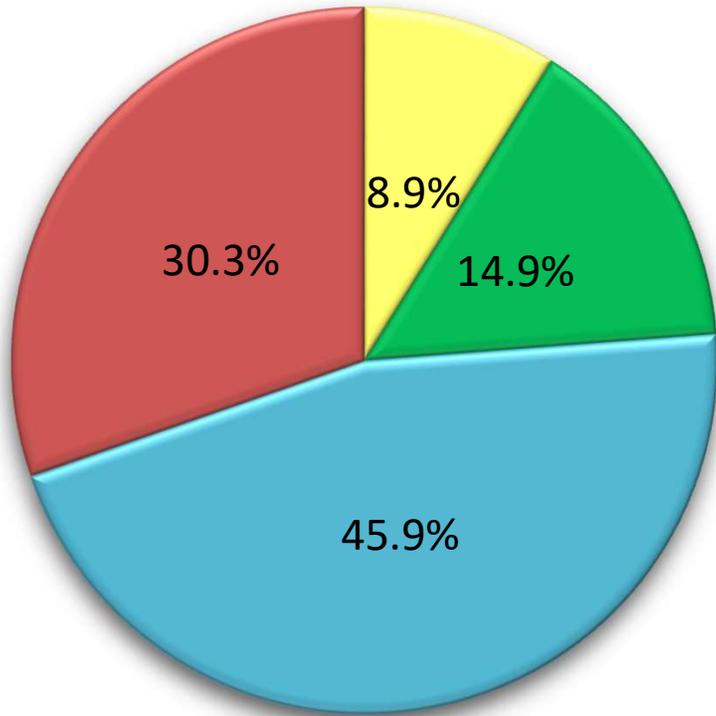


# Revenue by Type of Customer

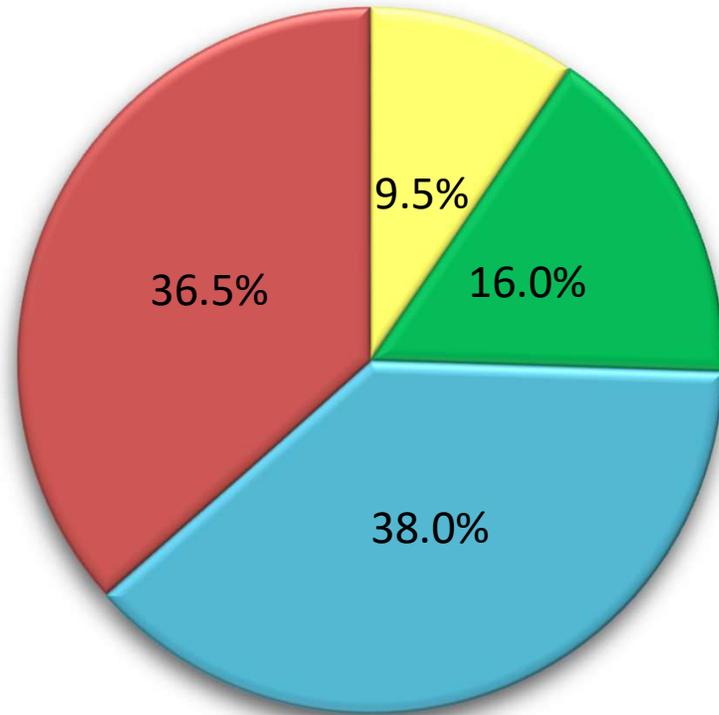


# Revenue by Activity Type

2019



2018



■ New Construction ■ Existing Building Construction ■ Service Projects ■ Service Calls, Maintenance & Monitoring

# APPENDIX

# Appendix I – GAAP Reconciliation to Adjusted EBITDA

(\$ Thousands) (Unaudited)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2019	2018	2019	2018
Net Income	\$ 34,052	\$ 25,156	\$ 114,324	\$ 112,903
Provision for Income Taxes	11,079	9,307	37,418	35,773
Other Income, net	(20)	(79)	(187)	(4,141)
Changes in the Fair Value of Contingent Earn-out Obligations	(933)	2,559	2,991	2,066
Interest Expense, net	2,376	1,089	9,093	3,637
Gain on Sale of Assets	(582)	(315)	(1,701)	(945)
Depreciation and Amortization	13,129	11,957	51,572	42,689
Adjusted EBITDA	<u>\$ 59,101</u>	<u>\$ 49,674</u>	<u>\$ 213,510</u>	<u>\$ 191,982</u>

Note: The Company defines adjusted earnings before interest, taxes, depreciation and amortization (“Adjusted EBITDA”) as net income, provision for income taxes, other income, net, changes in the fair value of contingent earn-out obligations, interest expense, net, gain on sale of assets, and depreciation and amortization. Other companies may define Adjusted EBITDA differently. Adjusted EBITDA is presented because it is a financial measure that is frequently requested by third parties. However, Adjusted EBITDA is not considered under generally accepted accounting principles as a primary measure of an entity’s financial results, and accordingly, Adjusted EBITDA should not be considered an alternative to operating income (loss), net income (loss), or cash flows as determined under generally accepted accounting principles and as reported by the Company.

## Appendix II – GAAP Reconciliation to Free Cash Flow

(\$ Thousands) (Unaudited)

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2019	2018	2019	2018
Cash from Operating Activities	\$ 42,313	\$ 79,188	\$ 142,028	\$ 147,190
Purchases of Property and Equipment	(9,109)	(5,209)	(31,750)	(27,268)
Proceeds from Sales of Property and Equipment	712	621	2,159	1,698
Free Cash Flow	<u>\$ 33,916</u>	<u>\$ 74,600</u>	<u>\$ 112,437</u>	<u>\$ 121,620</u>

Note: Free cash flow is defined as cash flow from operating activities less customary capital expenditures, plus the proceeds from asset sales. Other companies may define free cash flow differently. Free cash flow is presented because it is a financial measure that is frequently requested by third parties. However, free cash flow is not considered under generally accepted accounting principles as a primary measure of an entity's financial results, and accordingly, free cash flow should not be considered an alternative to operating income, net income, or cash flows as determined under generally accepted accounting principles and as reported by the Company.